

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Fowler Elementary School District No. 45

Year Ended June 30, 2007



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

Accounting Services Division Staff

Jerry Strom, Manager and Contact Person
jstrom@azauditor.gov

Paula Gustafson

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.azauditor.gov



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

January 16, 2009

Governing Board
Fowler Elementary School District No. 45
1617 South 67th Avenue
Phoenix, AZ 85043-7717

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2007, prepared by Heinfeld, Meech, & Co., P.C., to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Assistant Superintendent for Business Services in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

TABLE OF CONTENTS



Introduction	1
Finding 1: The District should strengthen controls over competitive purchasing	2
Finding 2: The District's controls over expenditures should be improved	3
Finding 3: The District should ensure the accuracy of its student attendance records	5
Finding 4: The District's controls over cash should be strengthened	6
Finding 5: The District should maintain and report accurate financial information	7

INTRODUCTION

Fowler Elementary School District No. 45 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$36.5 million it received in fiscal year (FY) 2007 to provide this education.

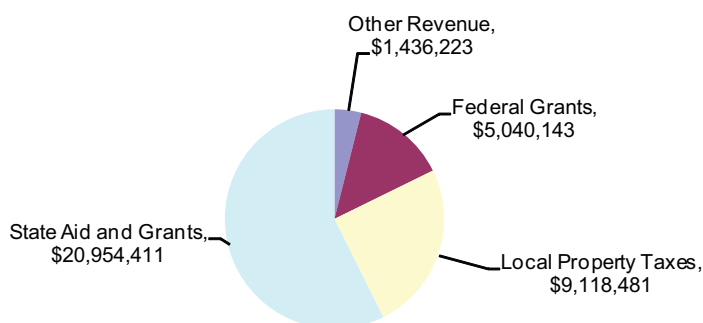
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2007, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2007

County: Maricopa
Number of Schools: 7

Number of Students: 4,193
Grade Levels: K-8



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2006-2007 and Fowler Elementary School District No. 45 Single Audit Reporting Package for the Fiscal Year Ended June 30, 2007.*

FINDING 1

The District should strengthen controls over competitive purchasing

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not consistently follow the procurement rules and the USFR guidelines. Specifically, for purchases requiring oral price quotations, the District did not always select the lowest price vendors and did not document why such vendors were not selected. Also, the District did not always obtain at least three written price quotations or issue invitations for bids (IFB) for purchases requiring them. In addition, the District did not retain documentation for the requests for proposals (RFP) to support the determination that the contract was awarded to the most advantageous vendor, and bid packets were not retained. Finally, the District did not always include the relative importance of price and other evaluation factors in its RFP nor always give adequate notice for the RFP.

Recommendations

To strengthen controls over competitive purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should:

- Obtain oral or written price quotations from three or more vendors for purchases requiring them. If three quotations cannot be obtained, the District should document the vendors contacted and their reasons for not providing quotations. Also, if a vendor is selected for reasons other than lowest price, the reasons should be fully documented and retained.
- Issue IFBs or RFPs for all purchases of construction, materials, or services that individually or in the aggregate exceed \$33,689 and ensure that all supporting documentation is maintained in the bid file.
- Retain documentation to support that the contract was awarded to the offeror whose proposal was most advantageous to the District based on the factors set forth in the RFP.
- Ensure that RFPs include all required information, including the relative importance of price and other evaluation factors.
- Give adequate notice for the RFPs.

Guidelines for oral and written price quotations can be found on USFR pages VI-G-8 and 9.

School District Procurement Rules provide the requirements for competitive sealed bids and proposals for goods and services in excess of \$33,689.

FINDING 2

The District's controls over expenditures should be improved

The District spends tax dollars to purchase goods and services, so it is essential that the District follow procedures designed to help ensure that all expenditures are appropriate and adequately supported. However, the District lacked controls to ensure that district monies were spent appropriately. Specifically, the District did not always retain supporting documentation for its expenditures, and district employees making credit card purchases were not always clearly identified on credit card receipts. Also, the District did not always properly cancel supporting documentation, and expenditures were not always within the approved purchase order amount. In addition, the District did not prepare an Advice of Encumbrance for fiscal year 2007, and expenditures were not always recorded in the fiscal year the goods and services were received. Further, the District reported a deficit fund balance for the Full-Day Kindergarten Fund at the end of the fiscal year. Finally, the District inappropriately wrote payroll checks from its Employee Insurance Programs Withholdings bank account, overpaid an employee by \$3,941, and underpaid two other employees.

The District's failure to retain documentation for expenditures left district monies susceptible to undetected theft or misuse.

Recommendations

To help improve controls over district expenditures, the District should:

- Retain documentation to support its expenditures, including receipts, approved check requests, and vendor invoices.
- Ensure that employees making credit card purchases are clearly identified on credit card receipts.
- Cancel vendor invoices and other supporting documents by stamping them "paid" and record the voucher number, check number, amount, and date paid on the invoice.
- Ensure that expenditures are recorded in the correct fiscal year by preparing an Advice of Encumbrance for liabilities payable as of June 30 for all levy funds. Record payments of those liabilities in the accounting records of the prior fiscal year during the 60-day encumbrance period following June 30. Goods and services received after June 30 should be recorded and paid in the next fiscal year.

- Ensure that purchases do not exceed the approved purchase order amount.
- Verify that sufficient cash is available in cash-controlled funds before authorizing expenditures.
- Use bank accounts as prescribed by statute and ensure all payroll warrants are processed through the County School Superintendent (CSS).
- Ensure that payroll registers are properly supported by pay rate changes, withholding and voluntary deduction authorization forms, and work attendance records, such as timesheets. A second employee should be assigned to verify the accuracy of the payroll registers and that employees are paid from the correct funds.
- Seek reimbursement from the district employee who was overpaid and pay the monies owed to the two district employees who were underpaid.

FINDING 3

The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to help ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not accomplish this objective. Specifically, the District did not always maintain accurate student attendance records, as dates on the student entry and withdrawal forms did not always agree with the District's computerized attendance system, and withdrawal forms were not always retained. Also, students having ten consecutive unexcused absences were not always withdrawn as of the first day of nonattendance, and the District did not always retain documentation to support the student absences. In addition, the District did not ensure that grades 7 and 8 were in session for the required number of hours, and student absences for all grade levels were not always reported correctly. Further, the District's handicapped extended school year route miles reported on the budget work sheets did not agree with ADE's Transportation Route Report (TRAN 55-1), and the District did not retain documentation to support the route miles reported on the TRAN 55-1.

The District may not have received the appropriate amount of funding as absences were not always reported correctly.

Recommendations

To help ensure that student attendance is recorded and reported accurately to ADE, the District should prepare and retain properly completed withdrawal forms. Also, the District should assign a second employee to verify that entry and withdrawal dates on the forms agree with the dates recorded in the District's computerized attendance system. In addition, the District should ensure that students withdrawn for ten consecutive unexcused absences are only counted in membership through their last day of attendance. Further, the District should verify that grades 7 and 8 meet for the required number of hours, and absences for kindergarten, elementary, and junior high students should be reported in accordance with ADE's *Instructions for Required Reports*. Finally, the District should obtain transportation amounts reported in its expenditure budget work sheets from the prior year's ADE TRAN 55-1 report and retain documentation to support the route miles reported on the TRAN 55-1.

ADE provides guidance for attendance-reporting requirements in its *Instructions for Required Reports*.

FINDING 4

The District's controls over cash should be strengthened

Poor cash controls left district and student activities monies susceptible to loss, theft, or misuse.

The District receives cash from various sources, including auxiliary operations and student activities. Because of the relatively high risk associated with cash transactions, the District should maintain effective internal controls to safeguard cash and ensure that it is promptly deposited. However, the District did not have adequate controls over its cash receipts. Specifically, the District did not prepare auxiliary operations daily cash summaries, and cash receipts could not be traced to a receipt or cash collection report. Also, the District did not always deposit student activities monies in a timely manner, and cash collection reports were not always supported by a count of items on hand before and after the sale. Further, the District did not always prepare prenumbered and numerically controlled cash receipt forms for miscellaneous cash received.

Recommendations

To help strengthen controls over cash, the District should:

Auxiliary Operations

- Prepare a daily cash collections summary to reconcile cash collections to the daily sales reports and athletic ticket sales reports.
- Ensure that all cash received can be traced to a receipt or cash collection report.

Student Activities

- Deposit student activities cash receipts daily, if significant, or at least weekly.
- Ensure that student activities cash collection reports are supported by a count of items on hand before and after a sale, except for events where it is not practical to determine the items sold, such as bake sales.
- Prepare prenumbered and numerically controlled cash receipt forms for all cash received.

Sample forms to record cash collections and reconcile sales to cash collected can be found on USFR pages X-G-17 and 21 and X-H-21.

FINDING 5

The District should maintain and report accurate financial information

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, the District must have strong internal controls to ensure the reliability of its financial information. However, the District did not fully accomplish this objective. Specifically, the District's records of cash balances were not reconciled to the County Treasurer's records at least monthly, and material reconciling items were not investigated and resolved in a timely manner. Also, the District improperly recorded several revenues and expenditures, made an unauthorized transfer of monies, and did not ensure journal entries were approved by an authorized district official. In addition, the District's Condemnation Fund had been inactive for at least 2 years but remained open, and expenditures reported on the District's annual financial report (AFR) did not agree with its accounting records. Further, the District did not retain documentation to support that its proposed expenditure budget, adopted expenditure budget, revised expenditure budget, and AFR were submitted to the CSS in a timely manner. Finally, the District did not always retain a fully executed copy of its intergovernmental agreements (IGA).

The District did not ensure the accuracy of its cash on deposit with the County Treasurer as it did not always reconcile its records in a timely manner.

Recommendations

To help record and report accurate financial information, the District should:

- Reconcile its ending cash balances to the County Treasurer's records monthly and resolve any differences.
- Record all transactions in accordance with the USFR Chart of Accounts.
- Transfer monies between funds only when the transfer is specifically authorized by statute.
- Review and approve journal entries and document their approval on the journal entry form before the entries are recorded in the District's accounting records.
- Close all inactive funds and transfer any remaining balances to the appropriate district fund.

USFR §III provides guidance for classifying financial transactions.

- Verify that revenues, expenditures, and fund balances presented on the AFR are accurate and agree with the District's accounting records before submitting it to ADE.
- Retain documentation to support that its proposed expenditure budget, adopted expenditure budget, revised expenditure budget, and AFR are submitted to the CSS in a timely manner.
- Maintain a fully executed copy of each IGA on file.